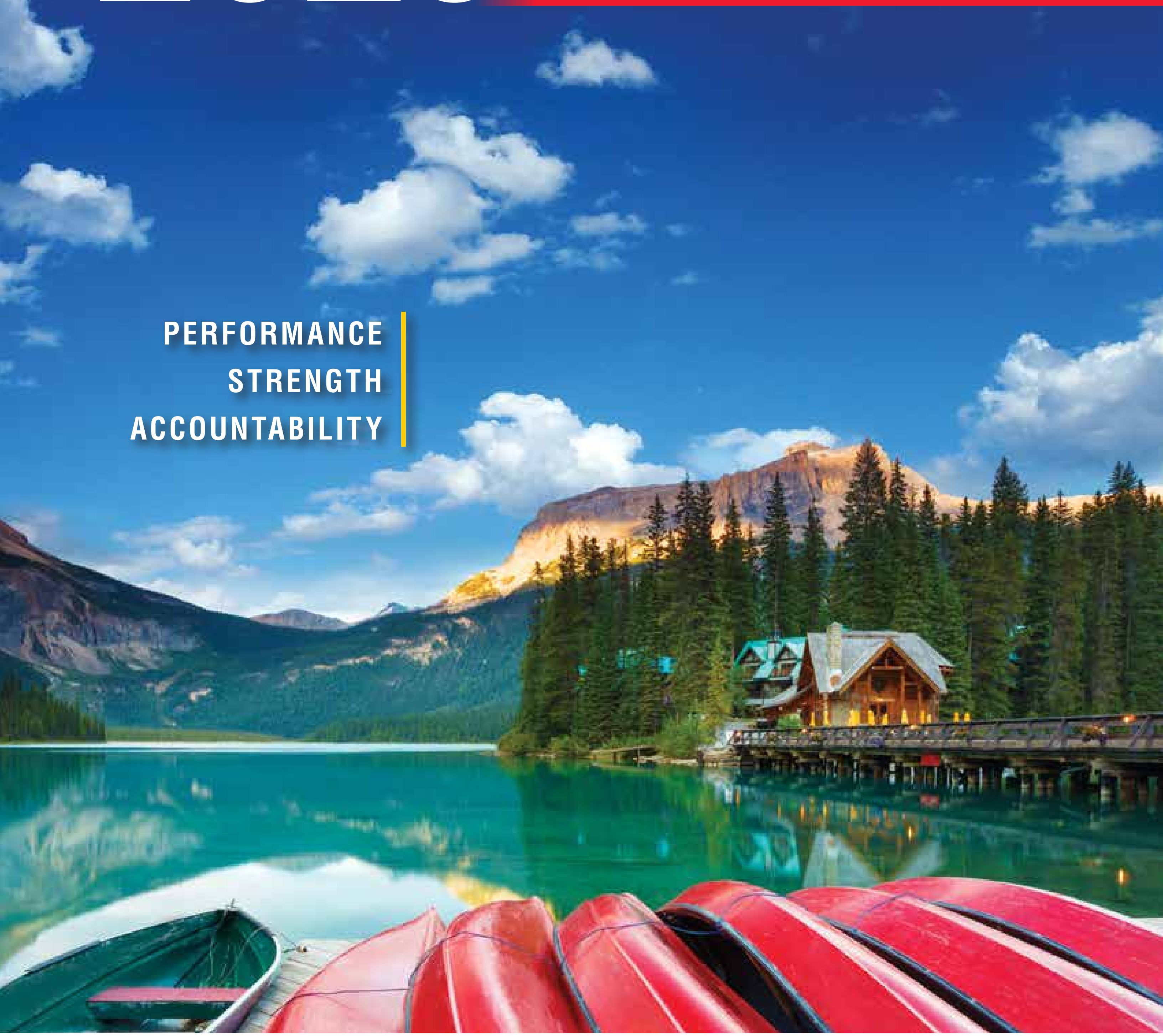
2016 Financialfacts

Participating life insurance

PERFORMANCE
STRENGTH
ACCOUNTABILITY



Canada Life™

This guide provides key financial facts about the performance, strength and management of the open block within the Canada Life™ participating account (Canada). The open block includes all participating policies issued or assumed on or after Nov. 5, 1999, after demutualization.

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*This document uses the term "policyowner," except in the appendix, which uses "policyholder."

Throughout this document, numbers may have been rounded.

Performance data are provided for illustrative purposes only. They represent past performance, which is not necessarily indicative of future performance.

Financial highlights 2016

for the Canada Life participating account

In this section, results include the Canada Life open and closed blocks but do not include the former New York Life and former Crown Life closed blocks, except where specifically indicated.

Performance

- Canada Life has distributed participating policyowner dividends every year since 1848.
- In 2016, Canada Life distributed $93 million in open block participating policyowner dividends.
- Total participating policyowner dividends, including the Canada Life closed block, were $193 million.
- On average, based on the 2016 dividend scale, approximately 60 per cent of participating policyowner dividends were derived from investment experience. Approximately 40 per cent were derived from mortality, expenses (including taxes) and other factors.[1]
- For any given year a policy may not receive a dividend, for example, if the dividend grouping of policies to which it belongs is considered to have made no contribution to participating account earnings.

Investments

- Canada Life's long-term investment strategy, together with its smoothing strategy, helps reduce the impact of short-term volatility on the investment component of participating policyowner dividends.
- The one-year return on total participating account assets for 2016, after investment expenses were deducted, was 5.7 per cent.[2]
- In 2016, the investment expenses charged to the participating account for the management of the assets were 8.7 basis points.

Historical average dividend scale interest rate

Years	Period	Average dividend scale interest rate[3] (%)
1	2016	6.0
10	2007–2016	7.0
30	1987–2016	8.9
60	1957–2016	8.9

- All historical averages are geometric means.
- The 30-year standard deviation, from 1987 to 2016, was 1.9 per cent.

Asset mix as at Dec. 31 (as a per cent of total invested assets)

Asset class	2016 (%)	2015 (%)
Equity investments, including real estate	19.7	18.2
Mortgage holdings	22.2	22.8
Public bond holdings	49.7	48.3
Private placement holdings	5.2	4.3
Cash and equivalents	3.1	6.4
Total invested assets	100.0	100.0

Mortality

- Historically, we have seen life expectancy increase. This, along with the prudent selection of underwriting risks has contributed to participating account earnings.
- In 2016, Canada Life participating policyowner death claims totalled $77.5 million.

Expenses

- Together, Great-West Life and its subsidiaries, London Life and Canada Life, serve the financial security needs of more than 13 million people across Canada. This provides opportunities for Canada Life to achieve expense efficiencies.

Other factors

- Other factors, such as policy changes and policy terminations, can also affect the performance of the participating account. For example, when the actual number of policy terminations is different from the assumptions used for pricing, this can affect the amount of distributable earnings.

Strength

- The total participating account assets, including surplus, were $5.0 billion at Dec. 31, 2016.
- Canada Life had approximately 296,000 participating life insurance policies in force at Dec. 31, 2016 (including former New York Life and Crown Life policies).
- Canada Life continues to have strong credit ratings relative to its North American peer group due to its conservative risk profile and stable earnings track record.[4]

Accountability

- The participating policyowner portion of distributed surplus in 2016 was 97.04 per cent.[5]
- Canada Life is governed under the *Insurance Companies Act of Canada* (ICA). The ICA governs how a company that has shareholders must manage its participating accounts. It also requires the establishment and maintenance of a participating account management policy and a participating policyowner dividend policy.
- Participating policyowner dividends are determined in accordance with the participating policyowner dividend policy approved by the board of directors. This policy is intended to ensure reasonable equity among groups of participating policyowners.
- You can find detailed information on the investments held in Canada Life's participating account at canadalife.com. This information is updated quarterly.

For 2017

- In August 2016, the board of directors approved the recommendation of the company's actuary to maintain the participating policyowner dividend scale for all Canada Life open and closed block participating insurance policies until June 30, 2017.
- Starting in 2017, the dividend scale effective date changed to July 1 and the dividend scale review will incorporate investment experience through to Dec. 31 of the preceding year, instead of through June 30.

NOTES

- The dividend scale interest rate is used to calculate the investment component of participating policyowner dividends. It is based on the smoothed investment return on the assets backing participating account liabilities. It does not include the return on assets backing the participating account surplus.
- The dividend scale interest rate is only one of many factors that contribute to an individual policy's performance. The actual growth in cash value for any specific policy varies based on a number of factors. These include type of product, product features, premium-paying period, issue age, rating, dividend option, the dividend scale and other factors.

1. Applies to Wealth Achiever and Estate Achiever Series 1 participating life insurance products issued on or before Dec. 31, 2016.
2. The participating account return is the return on the participating account assets that back the participating account liabilities and surplus, after investment expenses are deducted. Investment expenses may vary yearly due to changes in the total participating account asset mix, economies of scale and other factors. The participating account return is reported for the calendar year Jan. 1 to Dec. 31, 2016. The participating account return is a short-term indicator of investment performance. It is determined in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective Jan.1, 2011, with the exception of unrealized gains and losses on bonds. These are excluded because bonds in the participating account are generally held until maturity. Common stock and real estate returns are valued on a marked-to-market basis and realized and unrealized gains and losses are recognized as incurred. Realized gains and losses on bonds are recognized as incurred.
3. The historical average annual dividend scale interest rate for 30 years or less applies to policies issued on or after Sept. 16, 1968, which have a variable policy loan rate provision. Policies issued before this date have a fixed policy loan rate provision and may have a different dividend scale interest rate. The 60-year average annual rate is a blended average of the dividend scale interest rate that applies to policies that have a variable policy loan rate provision (1969 to 2016) and the dividend scale interest rate that applies to policies that have a fixed policy loan rate provision (1957 to 1968).
4. Based on the latest credit ratings by A.M. Best Company, DBRS Limited, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services at time of publication. For current information on Canada Life's ratings and financial strength, see canadalife.com.
5. Applies to open block policies only.

Performance

How participating life insurance policies perform

Participating life insurance is built on a foundation of guaranteed values plus the opportunity to receive participating policyowner dividends. Participating policy values can grow tax free within the policy, within legislative limits.

Participating policyowner premiums go into a separate account called the participating account. Canada Life manages this account and invests its assets in a diversified portfolio of bonds, mortgages and equities including real estate.

Earnings arise when actual experience is more favourable than the assumptions used when pricing the products. Experience factors that influence earnings may include, but are not limited to:

- Investments
- Mortality
- Expenses, including taxes
- Other factors

Each year, Canada Life may distribute some of these earnings, if any, in the form of participating policyowner dividends, as approved by the board of directors.

The amount to be distributed is influenced by considerations such as the need to retain earnings as surplus and to reduce short-term volatility in dividends. Surplus is held in the participating account for a number of reasons, including to help maintain the company's strength and stability.

Surplus, and income generated by it, is used to help ensure the financial strength and stability of the company. It can also be used for other purposes, such as to:

- Finance new business growth and acquisitions that may benefit the participating account
- Provide for transitions during periods of major change
- Manage undue fluctuations in dividends

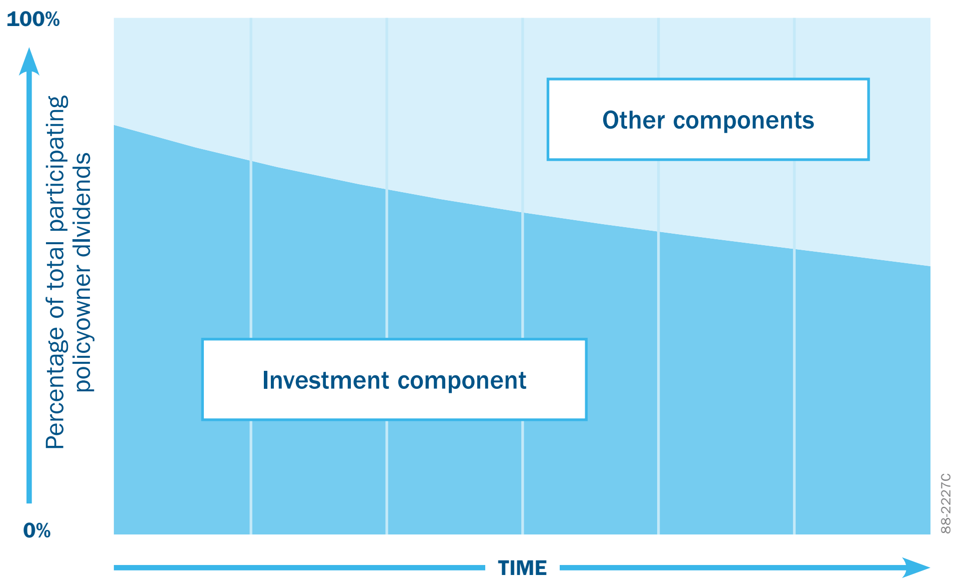
At least once a year, Canada Life reviews the participating policyowner dividend scale and the participating account insurance contract liabilities. It determines whether they are at an appropriate level and whether the dividend scale needs to change. This review may include items such as enhanced coverage option (ECO) term life insurance rates, the premiums charged to purchase paid-up additions and various crediting interest rates associated with the participating account.

Paid-up additions is a dividend option that uses participating policyowner dividends to buy more participating life insurance that is fully paid up and has additional cash value. The amount of paid-up insurance purchased by the dividend in any year will depend on the amount of the dividend, the age of the insured and the paid-up additions purchase rates in effect at that time. This dividend option can help grow a policy's cash value and death benefit.

Investment returns have historically provided the largest contribution to participating policyowner dividends. However, in the current low interest rate environment, mortality expenses (including taxes) and other factors are playing a larger role than before.

On average, based on the 2016 dividend scale, approximately 60 per cent of participating policyowner dividends were derived from investment experience. Approximately 40 per cent were derived from mortality, expenses (including taxes) and other factors.[1]

Changes in the composition of participating policyowner dividends in the recent low interest rate environment[2]



On Nov. 5, 1999, Canada Life converted from a mutual life insurance company – in which voting policyowners had ownership rights or interests – to a life insurance company owned by shareholders (a stock insurance company) through demutualization. At the time of demutualization, a closed block and an open block for the participating policies issued by Canada Life were established. Before demutualization, Canada Life had established closed blocks for the former New York Life and former Crown Life policies it had assumed. The closed blocks include all participating policies issued or assumed by Canada Life before demutualization. The open block includes all participating policies issued or assumed on or after demutualization.

Except as otherwise indicated, this guide provides financial information specific to Canada Life's open block participating life insurance policies, which include policies currently available for purchase today. Financial information specific to Canada Life's closed block policies may differ.

NOTES

1. Applies to Wealth Achiever and Estate Achiever Series 1 participating life insurance products issued on or before Dec. 31, 2016.
2. This is an illustrative example. Many factors can affect the composition of participating policyowner dividends for any given policy, such as product type, issue age, year issued and basic risk classifications.

How participating policyowner dividends are allocated

Each year, the board of directors declares what portion of the participating account earnings, if any, for that financial year will be distributed from the participating account. For open block policies in 2016, 97.04 per cent of the amount was distributed to participating policyowners and 2.96 per cent was distributed to the shareholder account under section 461 of the *Insurance Companies Act of Canada* (ICA). See the accountability section for more details.

In distributing participating policyowner dividends, Canada Life follows the contribution principle. In following this principle, several elements are taken into account. For example:

- Dividend groupings
- Generations of policies
- Legal and regulatory requirements
- Professional guidelines
- Industry practices

Any amount distributed from the participating account as policyowner dividends is divided among groupings of policies that share common attributes. The amount, if any, credited to each policy within a dividend grouping will vary depending on the earnings considered to have been contributed by that grouping. A policy may not receive a dividend, for example, if the grouping of policies to which it belongs is considered to have made no contribution to participating account earnings. Examples of how groupings are determined include:

- The year a policy was issued
- Time periods in which premiums, guarantees or pricing assumptions were similar
- Plan types
- Basic risk classifications; for example, male or female, smoker or non-smoker
- Issue ages

Dividends are distributed to policies according to the terms of each policy and take into account the amount of basic coverage and coverage from paid-up additions. The premium due on the first policy anniversary must be paid before a dividend is credited.

Whether or not a policy receives a dividend does not affect the guaranteed values and benefits payable under the contract. If a policy does not receive a dividend in any year this will not reduce the cash or death benefit values that have been accumulated up to that point as long as premiums continue to be paid when due and policy values have not been used for any purpose as may be specified under the contract or as elected by the policyowner.[1]

Before any participating policyowner dividends are declared, the appointed actuary must report to the board directors on the fairness to participating policyowners of the proposed dividend scale and whether it is in accordance with Canada Life's dividend policy.

How is a participating policyowner dividend different from a shareholder dividend?

Shareholder dividends are paid based on the overall results of the company from all lines of business. These include non-participating insurance and investment products.

Participating policyowner dividends are based solely on the experience of Canada Life's participating life insurance line of business.

Vesting is a significant benefit available with participating life insurance.

Starting at a policy's first anniversary, participating policyowners may begin receiving dividends. Dividends credited to a policy have a cash value associated with them. This cash value, once credited to the policy, cannot be reduced or used for any purpose, other than as authorized by the policyowner, to pay premiums or to preserve the policy's tax-exempt status.

Vesting is a key and attractive advantage of participating life insurance because policyowner dividends, once credited, cannot be negatively affected by future adverse experience.

NOTES

1. For policies with the enhanced coverage option (ECO), if the policy does not receive a dividend or the amount of the dividend is not sufficient to support the illustrated ECO amount, the policyowner may choose to pay an additional cash premium to buy sufficient one-year term insurance to maintain the ECO amount, otherwise, the ECO amount will be reduced.

Investments

The investment performance of the Canada Life participating account is an important component in determining the long-term value of participating life insurance policies.

The participating account assets are managed by Canada Life's investment division. The company's asset and liability management group monitors the overall asset mix. It guides investment activity within the parameters of the investment policy, approved by the board of directors. The managers of the specific asset classes – such as bonds, mortgages and equities, including real estate – manage the buying and selling of the actual assets in the portfolio within the parameters specified.

Dividend scale interest rate

The dividend scale interest rate is used to determine the amount of participating policyowner dividends that come from the participating account investments.

The dividend scale interest rate:

- Incorporates the smoothed investment experience of assets backing participating account liabilities for the most recent measurement period
- Does not include the return on assets backing the participating account surplus
- Includes the smoothed gains and losses from prior periods
- May change depending on investment experience

Smoothing is the process by which gains and losses are brought into the dividend scale interest rate over a period of time.[1]

Canada Life's long-term investment strategy, together with its strategy of smoothing, helps reduce the impact of short-term volatility on the investment component of participating policyowner dividends.

The dividend scale interest rate is only one factor that contributes to an individual policy's performance. It cannot be directly tied to the cash value growth in a particular policy. The actual cash value growth in a policy varies based on a number of factors. For example:

- Type of product
- Product features
- Premium-paying period
- Issue age
- Rating
- Dividend option
- Dividend scale
- Policy duration

Past results are not indicative of participating account future investment performance.

Participating account return

The return on participating account assets, after investment expenses are deducted, affects asset growth.

The participating account return is the return on the total participating account assets that back both liabilities and surplus after investment expenses are deducted. The participating account return is reported for the calendar year Jan. 1 to Dec. 31. In 2016, investment expenses were 8.7 basis points for the Canada Life open account. Investment expenses may vary yearly due to changes in the asset mix of total participating account, economies of scale and other factors.

The participating account return is a short-term indicator of investment performance.

NOTES

1. The smoothing method is subject to change without notice.

Participating account historical average returns (at Dec. 31, 2016)

Participating account asset class	1-year (2016)	2-year (2015–16)	3-year (2014–16)	4-year (2013–16)	5-year (2012–16)	10-year (2007–16)
Public bonds and private placements	3.1%	3.2%	4.7%	4.8%	4.7%	5.2%
Mortgages	3.7%	3.9%	4.2%	4.2%	4.3%	5.0%
Equities	16.7%	6.9%	8.2%	10.0%	10.1%	7.5%
Total participating account return (after investment expenses)[1]	5.7%	4.2%	5.2%	5.6%	5.6%	5.6%

NOTES

- With the exception of unrealized gains and losses on bonds, which are excluded because bonds in the participating account are generally held until maturity, the participating account return is calculated in accordance with the following:
  - From 2007-10, the Canadian Institute of Chartered Accountants (CICA) handbook
  - Effective Jan. 1, 2011, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

1. The total participating account return includes returns on assets such as policy loans and cash and equivalents.

Historical average returns (at Dec. 31, 2016)

Number of years	1	5	10	20	30	60	30-year standard deviation
	(2016)	(2012–16)	(2007–16)	(1997–2016)	(1987–2016)	(1957–2016)	(since 1987)
Canada Life dividend scale interest rate (%)	6.0	6.5	7.0	7.8	8.9	8.9	1.9
S&P/TSX composite total return index (%)	21.1	8.2	4.7	7.3	8.2	9.1	16.0
Five-year GICs (%)	1.4	1.6	2.0	3.0	4.7	n/a	2.9
Government of Canada 5- to 10-year bonds (%)	1.0	1.5	2.3	3.7	5.3	6.5	2.9
Consumer price index (%)	1.5	1.3	1.6	1.8	2.2	3.7	1.3

All historical average annual returns are geometric means.

A low standard deviation means the range of performance has been narrow. This indicates there has been low volatility.

As with any financial product, over the long term, changes in investment returns can significantly affect participating policyowner dividends and related policy features. To understand this sensitivity, clients and policyowners should call their advisor.

NOTES

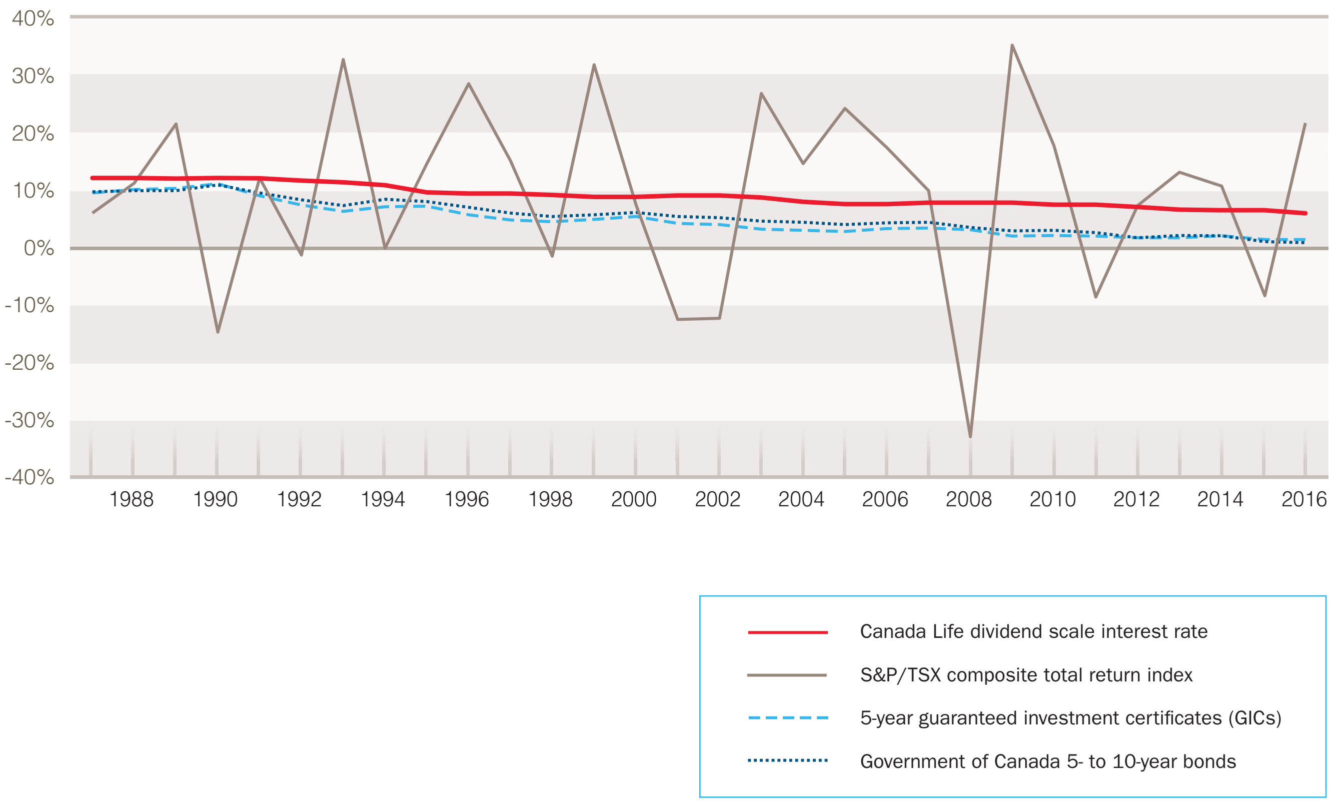
- The dividend scale interest rate is used to calculate the investment component of participating policyowner dividends. It is based on assets backing the participating account liabilities. It does not include the returns on assets backing the participating account surplus. Dividend scale interest rates shown are for the Canada Life open and closed blocks.
- S&P/TSX composite total return index includes the reinvestment of dividends. TSX © Copyright 2017 TSX Inc. All rights reserved.
- Five-year guaranteed investment certificate (GIC) returns are based on nominal yields to maturity. Source: Statistics Canada, CANSIM table 176-0043, series V122526 (Statistics Canada website), Jan. 26, 2017. For each calendar year, the average of the monthly GIC rates was used.
- Government of Canada five- to 10-year bond returns. Source: Statistics Canada, CANSIM table 176-0043, series V122486 (Statistics Canada website), Jan. 26, 2017. For each calendar year, the average of the monthly values was used.
- Consumer price index inflation rates are based on the change from December to December. Source: Statistics Canada, CANSIM table 326-0020, series V41690973 (Statistics Canada website), Feb. 23, 2017.

Stability

The Canada Life participating account has a strong surplus position that helps provide stability and strength to the company and can help manage undue short-term fluctuations in dividends.

Historically, during times of economic change, the Canada Life dividend scale interest rate has been relatively stable compared to returns on many financial investments. The graph below shows how the participating account asset mix and Canada Life's strategy of smoothing of returns have helped stabilize the Canada Life dividend scale interest rate.

Returns (at Dec. 31, 2016)



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- Government of Canada five- to 10-year bond returns. Source: Statistics Canada, CANSIM table 176-0043, series V122486 (Statistics Canada website), Jan. 26, 2017. For each calendar year, the average of the monthly values was used.

Asset mix

The Canada Life total participating account includes assets backing participating account liabilities and assets backing participating account surplus.

The assets backing participating account liabilities are broadly diversified and are generally managed as a fixed-income account, with a target mix of approximately 80 per cent of invested assets in fixed-income investments and 20 per cent of invested assets in equities.

The assets backing participating account surplus are primarily invested in fixed-income investments.

Canada Life total participating account assets at 2015 and 2016 year-ends ($ millions)

(combined assets for the open and closed blocks)

	Total invested assets Dec. 31, 2015		Total invested assets Dec. 31, 2016		Investment guidelines	Total participating account assets
	$	%	$	%	%	%
Short term						
Cash and equivalents	264.8	6.4	147.2	3.1	0 to 5	2.9
Fixed income						
Bonds and private placements						
Public bonds						
Government	637.8	15.4	878.9	18.4		17.6
Corporate	1,358.3	32.9	1,498.0	31.3		30.0
Private placements	176.1	4.3	249.5	5.2		5.0
Subtotal of bonds and private placements	2,172.2	52.6	2,626.4	54.9	40 to 75	52.5
Mortgages						
Residential	210.0	5.1	228.7	4.8		4.6
Commercial	731.4	17.7	835.1	17.5		16.7
Subtotal of mortgages	941.4	22.8	1,063.8	22.2	15 to 40	21.3
Total fixed income	**3,113.5**	**75.4**	**3,690.2**	**77.2**		**73.8**
Equities						
Real estate	266.8	6.5	267.9	5.6	0 to 15	5.4
Public equities						
Common stock	483.7	11.7	674.6	14.1	5 to 20	13.5
Preferred stock	0.4	0.0	0.0	0.0	0 to 5	0.0
Private equities*	0.0	0.0	1.7	0.0		0.0
Total equities	**750.9**	**18.2**	**944.3**	**19.7**		**18.9**
Total invested assets	4,129.3	100.0	4,781.6	100.0		95.6
Policy loans	294.6		302.3			6.0
Other assets**	-12.3		-83.0			-1.7
Total participating account assets	**4,411.5**		**5,000.9**			**100.0**

* Private equities are included in the investment guidelines for common stock
** Includes assets such as investment income due and accrued, outstanding premiums (receivables), future income tax and reinsurance assets.

NOTES

- Total invested assets include assets backing participating account liabilities and participating account surplus.
- Canada Life has guidelines in place to manage the allocation of invested assets, by asset class for the participating account. The board of directors must approve any change to the investment guidelines.
- Investment guidelines that apply to assets backing participating account liabilities are shown. These ranges do not include surplus assets or the categories of policy loans or other assets in the table above. Assets backing participating account surplus are primarily invested in fixed-income investments.
- Asset values are determined in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), effective Jan. 1, 2011.

Investment guidelines

The investment guidelines for each asset category recognize the business objectives, liability characteristics, liquidity requirements, tax considerations and interest rate risk tolerance unique to that category. The board of directors must approve any change to the investment guidelines.

A large portion of the total participating account assets is invested in bonds and mortgages to support long-term stable growth and core guarantees within participating life insurance policies.

Canada Life's investment strategy helps stabilize the variation in the investment returns used to determine the investment portion of participating policyowner dividends.

Years to maturity by fixed-income asset type

Based on book values at Dec. 31, 2016

Fixed-income asset type	0–5 years to maturity (%)	Over 5 years to maturity (%)
Public bonds	47.1	52.9
Private placements	11.9	88.1
Residential mortgages	99.8	0.2
Commercial mortgages	39.0	61.0
Total fixed income	46.1	53.9

About 10 per cent of the total fixed-income portfolio of bonds and mortgages will be invested each year at then-current market rates. The majority of this is due to the maturity of bonds and mortgages. A portion of the new premiums and investment income is also invested at then-current market rates each year.

The asset returns available in the marketplace in January and February 2017 for new participating account investments in bonds and mortgages were about 3.25 per cent. This is approximately 51 basis points below the average return for similar participating account assets maturing throughout 2017.

Asset quality is very important

At Dec. 31, 2016

Rating	Public bonds (%)	Private placements (%)
AAA	47.2	0.2
AA	12.6	9.4
A	28.5	33.9
BBB	11.7	56.5
BB or less	0.0	0.0
Total	100.0	100.0

100.0 per cent of bonds held are investment grade or higher. That is, they are rated BBB or higher. This is an investment industry measure of bond quality. Private placements are internally rated.

Private placements

Private placements are bond investments made through private agreements with borrowers. They are grouped into three main categories:

- Lease finance
- Mid-market and other corporate credit
- Infrastructure

These investments have the potential to provide higher returns than other types of fixed-income investments. All private placements go through a disciplined credit process. Each arrangement undergoes due diligence and is thoroughly researched, underwritten and actively managed by the investment management team that specializes in private placements.

Mortgages (commercial and residential)	%
Insured	22.5
Uninsured	77.5
Total	100.0

- Principal and interest to the date of default are guaranteed for insured mortgages.
- Residential and commercial mortgage arrears (90+ days) are 0.03 per cent compared to the 0.01 per cent industry average at Dec. 31, 2016.

Mortality

Historically, we have seen life expectancy increase. This, along with the prudent selection of underwriting risks, has contributed to participating account earnings.

In 2016, participating policyowner death claims totalled $77.5 million.

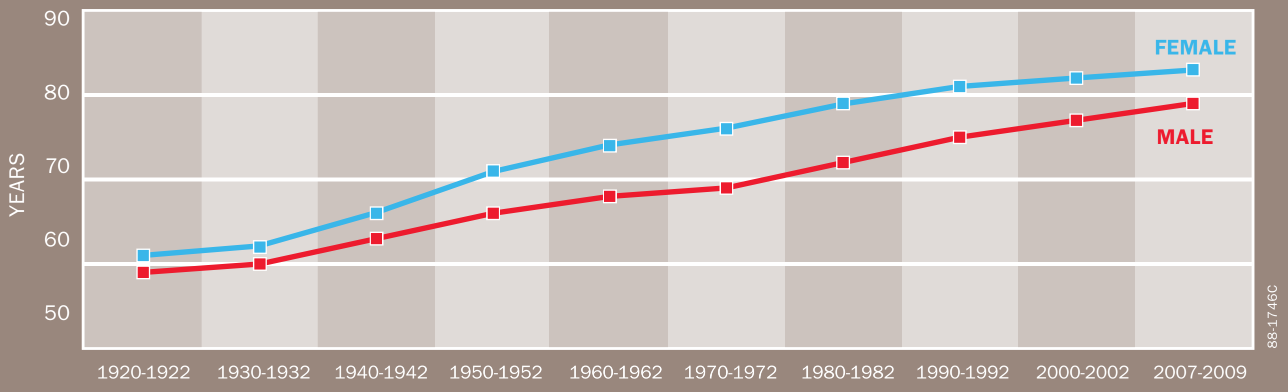
People have been living longer and participating policyowners have benefited

When people live longer, policy claims are paid later than anticipated. This benefits participating policyowners because this can increase the amount available for distribution as participating policyowner dividends. This is a unique feature of participating life insurance.

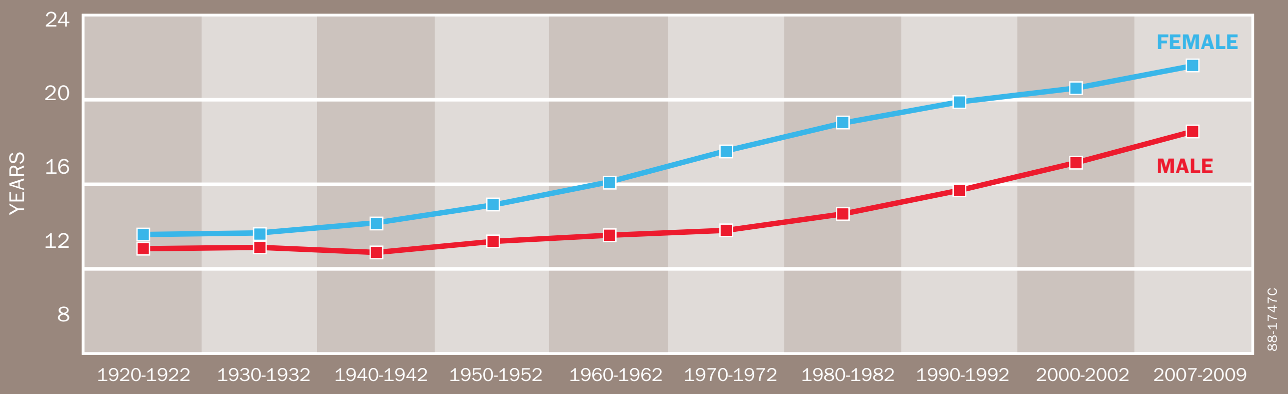
Mortality experience is reviewed annually. Changes in mortality are taken into account in the review of participating policyowner dividends. In recent years, mortality improvements have helped partially offset the impact of declining interest rates.

Factors such as medical advances, lifestyle changes and changes in disease incidence rates make future mortality trends difficult to predict. However, even if mortality improvements slow over time, current mortality levels are still generally better than those used by Canada Life in pricing participating life insurance products.

Statistics Canada life expectancy for males and females at birth



Statistics Canada remaining life expectancy for males and females at age 65



SOURCES

- 1920-22 to 1980-82: Statistics Canada, Longevity and Historical Life Tables: 1921-81 (Abridged) Canada and the Provinces. Catalogue no. 89–506.
- 1990-92: Statistics Canada, Life Tables, Canada, Provinces and Territories, Catalogue no. 84–537.
- 2000-02 to 2007-09: Statistics Canada, CANSIM table 102-0512.

The protective value of underwriting

These mortality statistics reflect life expectancies for the entire population. On average, individuals who have been underwritten and approved for life insurance have longer life expectancies. This is because people considered higher risk, because of health, lifestyle or occupational concerns, may pay more for life insurance coverage or may be declined coverage.

Other factors

Other factors, such as policy changes and policy terminations, can also affect the performance of the participating account.

For example, if the actual number of policy terminations is different than the assumptions used for pricing, this can result in gains or losses, depending on the circumstance:

- For products with early cash values, if the actual number of policy terminations in the early years is higher than the assumptions used for pricing, this would generally be expected to affect the participating account performance negatively.
- For products with delayed cash values, if the actual number of policy terminations in the early years is higher than the assumptions used for pricing, this would generally be expected to affect the participating account performance positively.

Expenses

Canada Life's expense management policies focus on controlling expenses for the benefit of participating policyowners and shareholders.

Expenses and taxes are allocated to the participating account in accordance with a method that is fair and equitable to participating policyowners, in the opinion of the appointed actuary. Each year, the actuary reviews the method used for allocating expenses and taxes to the participating account and reports to the board of directors on its continuing fairness. The board of directors approves this method after considering the actuary's opinion.

Economies of scale

Canada Life is a subsidiary of The Great-West Life Assurance Company. Together, Great-West Life and its subsidiaries, London Life and Canada Life, serve the financial security needs of more than 13 million people across Canada.

They have almost three million individual life insurance policies in force (as at Dec. 31, 2016). They are a leading provider of individual life insurance in Canada. This provides opportunities for Canada Life to achieve expense efficiencies.

Strength

A Canada Life participating life insurance policy provides a foundation of guaranteed values. It also offers the opportunity for growth based on participation in a pool with other participating policies.

Canada Life participating life insurance offers both stability and flexibility in a permanent life insurance solution.

- Canada Life's open participating account has $1,959 million in assets, including $350 million in surplus (as at Dec. 31, 2016).
- Canada Life has distributed participating policyowner dividends every year since 1848.
- For any given year, a policy may not receive a dividend, for example, if the grouping of policies to which it belongs is considered to have made no contribution to participating account earnings.
- The Canada Life participating account has a strong surplus position that helps provide stability and strength to the company. It can also help manage undue short-term fluctuations in dividends.
- Canada Life continues to have strong credit ratings relative to its North American peer group. This is due to its conservative risk profile and stable earnings track record.[1]

Open block participating account ($ millions)

SUMMARY OF PARTICIPATING ACCOUNT OPERATIONS

	2015 ($)	2016 ($)
Participating policyowner premiums	865	1,137
+ Investment income	35	92
– Benefits paid	37	43
– Changes in actuarial liabilities	362	396
– Expenses and taxes	368	537
– Distribution to participating policyowners and shareholders	89	112
Participating policyowner dividends	78	93
Change in dividend liability	7	12
Shareholder portion		
Cash payment	3	3
Accrual	1	4
= Participating account net income (loss)	44	141

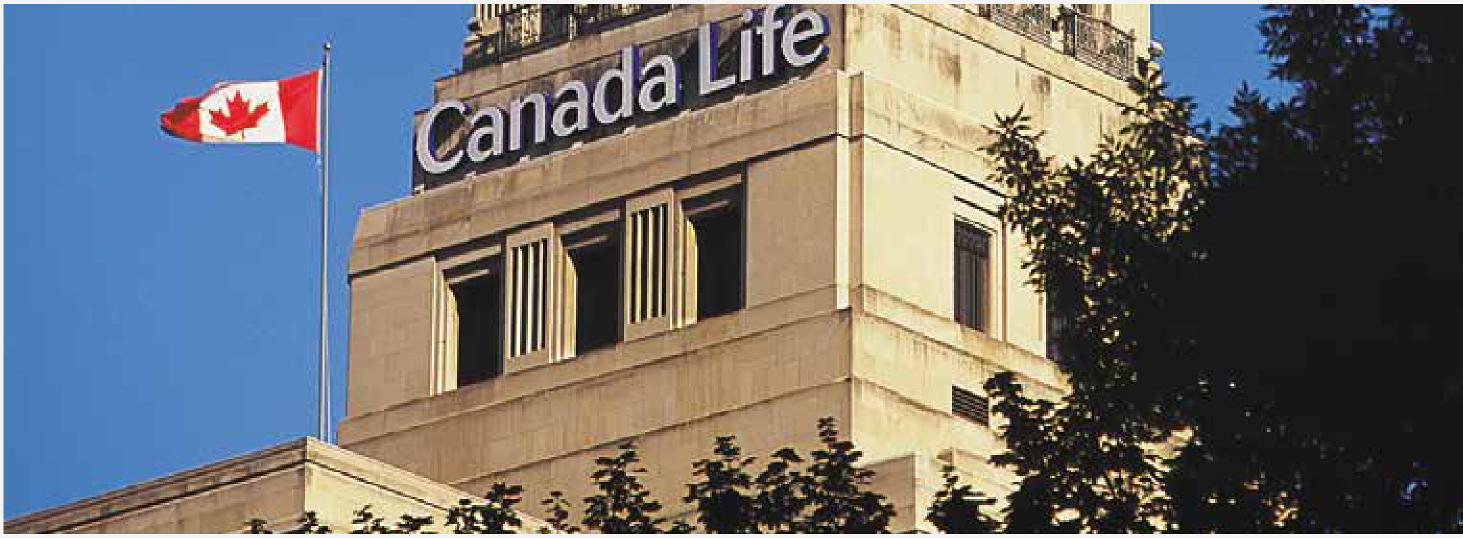
PARTICIPATING ACCOUNT BALANCE SHEET

	Dec. 31, 2015 ($)	Dec. 31, 2016 ($)
Open block assets	1,401	1,959
– Open block liabilities	1,189	1,609
= Closing balance for participating account surplus	212	350
Participating account surplus		
Opening balance Dec. 31 (previous year)	163	212
+ Participating account net income (loss)	44	141
+ Other comprehensive income (loss)	5	(3)
= Closing balance for participating account surplus	212	350

NOTES

- Investment income, asset values and changes in actuarial liabilities are determined in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), effective Jan. 1, 2011.
- Certain assets, such as public bonds, common stocks and real estate, are marked to market. They are not smoothed. Investment income is reported for the calendar year, Jan. 1 to Dec. 31. It includes assets backing participating account liabilities and surplus.
- Changes in actuarial liabilities are made from time to time to reasonably ensure the total amount of actuarial liabilities is sufficient to meet all participating policyowner obligations.
- The dividend liability represents participating policyowner dividends earned but not paid at the calendar year-end.
- To be consistent with the company's financial statements, accumulated other comprehensive income is included in the participating account surplus. Other comprehensive income includes specific unrealized investment gains and losses, which may be temporary.
- The accrual account represents a portion of shareholder surplus that is held within the participating account and has been recognized but not paid. It is dependent on the future payment of participating policyowner dividends. The accrual account balance increased by $1.3 million in 2015 and by $4.2 million in 2016.

1. Based on the latest credit ratings by A.M. Best Company, DBRS Limited, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services at the time of publication. For current information on Canada Life's ratings and financial strength, see the corporate information section at canadalife.com.



Canada Life – providing life insurance protection to Canadians since 1847

Founded in 1847, The Canada Life Assurance Company was Canada's first domestic life insurance company. We provide insurance and wealth management products and services in Canada, the United Kingdom, Isle of Man and Germany, and in Ireland through Irish Life. Canada Life is a subsidiary of The Great-West Life Assurance Company.

In Canada, we offer insurance and wealth management products for individuals, families and business owners from coast to coast. Our products include investments, savings and retirement income, annuities, life, disability and critical illness insurance. They are distributed through independent advisors associated with managing general agencies, as well as national accounts, including Investors Group. Together, Canada Life, Great-West Life and London Life serve the financial security needs of more than 13 million people across Canada. Canada Life reported a minimum continuing capital and surplus requirements ratio of 275 per cent at Dec. 31, 2016.*

Together, Great-West Life, London Life and Canada Life have almost three million individual life insurance policies in force (as at Dec. 31, 2016). They are a leading provider of individual life insurance in Canada.

The companies are subsidiaries of Great-West Lifeco Inc. and members of the Power Financial Corporation group of companies.

* In Canada, the Office of the Superintendent of Financial Institutions has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* and their subsidiaries. This measurement is known as the minimum continuing capital and surplus requirements ratio. For Canadian regulatory purposes, capital is defined by the Office of the Superintendent of Financial Institutions in its guideline for minimum continuing capital and surplus requirements. The company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

Accountability

Canada Life is a shareholder-owned company and, as such, is required to maintain the participating account and its earnings separately from the shareholder account.

Canada Life is regulated federally under the *Insurance Companies Act of Canada* (ICA) and by the Office of the Superintendent of Financial Institutions (OSFI) and under the relevant insurance legislation of each province as administered by the relevant provincial insurance regulatory authority.

Insurance Companies Act (ICA) provisions and references

Subject to the ICA, the directors of a company must manage or supervise the management of the company's business affairs. This includes establishing and maintaining a policy for dividends to be distributed to participating policyowners, as well as a policy for managing the participating accounts. The ICA outlines the duties required of directors and the reporting requirements regarding the use of fair and equitable actuarial practices.

1. Investment income and expenses are to be allocated to the participating account in accordance with a method that is fair and equitable to participating policyowners, in the opinion of the company's actuary. Once the board of directors approves this method, it is sent to OSFI (sections 457-460).
2. The board of directors is required to establish and maintain a policy for determining the dividends to be distributed to participating policyowners and to send a copy to OSFI (section 165 (2) (e)).
3. The board of directors is required to establish and maintain a policy for managing the participating account and to send a copy to OSFI (section 165 (2) (e.1)).
4. At least annually, the company's actuary must review the participating policyowner dividend policy. The company's actuary must provide a written report to the board of directors on the policy's continuing fairness to participating policyowners (section 165 (3.1) – Report of the Actuary).
5. Before the board of directors declares participating policyowner dividends, the company's actuary must provide his or her opinion to the board on the fairness to participating policyowners of the proposed policyowner dividends and on the company's compliance with its policyowner dividend policy (section 464 (2)).

6. The ICA limits the amount that may be distributed to the shareholder account from any annual distribution of the profits of the participating account for a financial year (section 461). This annual limit is set as a maximum percentage of the amount determined by the board of directors to be distributed from the profits of the participating account for that financial year. This total amount to be distributed is divided between the shareholders and participating policyowners. The maximum percentage of the total distribution that can be distributed to the shareholder account depends on the size of the participating account. The maximum percentage decreases from 10 per cent, for a small participating account, to just over 2.5 per cent as the size of the participating account increases. In 2016, Canada Life distributed 2.96 per cent. In 2016, this distribution to the shareholder account was $3 million, representing approximately 0.1 per cent of the participating account assets at Dec. 31, 2016.

7. Participating policyowners and shareholders are entitled to receive notice to attend the annual meeting of policyowners and shareholders. They are entitled to receive copies of documents, for example, the annual statement. They also have voting rights (sections 331 and 334).

For more information on Canada Life's participating account management policy and policyowner dividend policy, see the appendix.

Need more information?

You can find out more about participating life insurance and Canada Life's other products and services by calling your advisor. Each year on a policy's anniversary, a participating policyowner receives an annual statement that provides an update on the current status of the policy.

Visit canadalife.com or call 1-888-252-1847 if you have questions about a specific policy.

Your policy contains important definitions of certain terms used in this guide. You should keep this guide with your Canada Life policy illustration and participating life insurance policy contract.

The information in this guide is based on current laws, regulations and other rules applicable to the company and Canadian residents. Every reasonable effort has been made to ensure its accuracy as of the date of publication. However, rules and their interpretations may change, which could affect the accuracy of the information. The information provided is general in nature, and should not be relied on as a substitute for advice in a specific situation. For specific situations, advice should be obtained from the appropriate professional advisors.

Canada Life is a member of Assuris, which administers the Consumer Protection Plan for policyowners of member companies.

Appendix

The Canada Life Assurance Company (the Company) Participating Account Management Policy

This Participating Account Management Policy has been established by the Board of Directors, in conjunction with the Participating Policyholder Dividend Policy, and may be amended by the Board from time to time at its discretion. The factors most likely to be considered in deciding whether to amend this policy include changes in applicable legal or regulatory requirements, professional guidelines, industry practices or significant business changes. The Appointed Actuary has overall accountability for the administration of this policy, having regard for relevant corporate policies.

The participating account is managed with regard to the Company's enterprise risk management framework through which the Board and management establish the Company's risk strategy, articulate and monitor adherence to risk appetite and risk limits and identify, measure, manage, monitor and report on risks.

As required by the Insurance Companies Act, the Company maintains accounts for its participating insurance policies separately from those maintained in respect of other policies. This facilitates the measurement of the earnings attributable to the participating account.

The participating account is maintained in respect of participating life insurance policies and small blocks of participating annuities and disability insurance policies that have been issued or assumed by the Company. The participating account is comprised of three main types of sub-accounts. The closed block sub-accounts for Canada Life, New York Life and Crown Life were established for participating insurance policies issued or assumed by the Company prior to demutualization and are comprised of the best-estimate liabilities associated with these policies. The ancillary sub-accounts are comprised of the liabilities associated with provisions for adverse deviation in respect of the policies contained in the closed block sub-accounts. The open sub-accounts for Canada Life and Crown Life were established for participating insurance policies issued or assumed by the Company after demutualization and are comprised of the total liabilities associated with these policies. While the majority of these open sub-accounts have been closed to new business after demutualization, the Canada Life Canadian open sub-account remains open to new business.

The closed block sub-accounts are maintained in accordance with the operating rules established by the Company for the closed blocks and approved by the Office of the Superintendent of Financial Institutions. The closed block operating rules govern the management of the various closed block sub-accounts, including investment income allocation, mortality costs, expense charges and taxes. The Appointed Actuary is required to provide the Superintendent and the relevant non-Canadian insurance regulators with reports and opinions about the operation of the closed block sub-accounts and ongoing compliance with the closed block operating rules as may be required.

Assets of the Company held within its general funds are allocated to the participating account and non-participating account segments for the purpose of determining investment income for each account. Assets are allocated to each segment according to the investment guidelines established for the segments. These guidelines outline criteria for asset mix, liquidity, currency risk and interest rate risk. These guidelines are intended to recognize considerations such as the business objectives, liability characteristics, liquidity requirements, tax considerations and interest rate risk tolerance of each segment. Assets allocated to a segment may from time to time be reallocated to another segment within the same account or another account provided the assets exchanged comply with the investment policy of the respective segments. Any such exchanges are effected at fair value.

On an annual basis the Board of Directors reviews and approves investment policies and guidelines which govern investment activities for each of the sub-accounts. The investment policies outline a number of principles for investing in assets, including risk tolerance and the approach to managing investment risk. Investment risk is managed through underwriting standards, exposure limits and specific guidelines governing asset classes and investment operations. The investment policies establish limits for the concentration of assets in single geographic areas, industries, companies and types of businesses as part of the risk management process. The Company may use derivative products for risk management purposes to hedge asset and liability positions, or as substitutes for cash within specified limits.

For the Canada Life Canadian open, closed block and ancillary sub-accounts, the assets supporting the participating account liabilities are notionally divided into two segments for defining investment needs and objectives and managing the portfolio: (1) investments that are used to satisfy near term policy benefits (next 10 years) and (2) investments that are used to achieve longer term objectives.

The investments used for the near term are primarily fixed income assets. The cash flows of these assets, together with the participating policy premiums are expected to provide for the policyholder benefits for the next 10 years. These benefits include dividends, death benefits, cash surrender values and other policy benefits such as waiver of premium.

The investments used to achieve the longer term objectives include a combination of 1 to 10 year fixed income assets and a diversified pool of common stocks and real estate. As a result, the fixed income assets in this segment are expected to mature and be reinvested several times before satisfying the policy benefits. The focus in managing this segment is to create value by reinvesting in a disciplined manner as investment spreads, interest rate levels and equity market conditions evolve and cycle. The performance of this part of the strategy is a key driver of changes in the dividend scale interest rate and this rate is an important contributor to changes in the dividend scale.

For all other sub-accounts, the Company invests primarily in fixed income assets. The target maturity profile of these fixed income investments is shorter than the expected policy cash flows. This strategy is intended to produce returns that exhibit stability while providing policyholders with some participation in changing fixed income market conditions.

Investment income is allocated to the participating account in accordance with the Company's investment income allocation policy. Generally, investment income results are allocated directly to a segment based on the assets allocated to the segment. Each year the Appointed Actuary reviews the method used for allocating investment income to the participating account and reports to the Board of Directors on its fairness and equitableness.

Expenses and taxes incurred by the Company are allocated to the participating account in accordance with the Company's expense allocation and tax allocation policies.

Expenses are allocated by the area incurring the expense to the appropriate company and line of business. As a general principle, expenses are allocated to a line of business in accordance with its business activities. In addition, from time to time the Company makes significant expenditures/investments outside of regular business activities which may include but are not limited to transactions such as acquisitions, restructurings, and capital expenditures (e.g. major IT systems), the intent and effect of which is to reduce future expenses. The governing principle for fair and equitable treatment of such expenditures/investments is that expenses will be allocated to the lines of business recognizing both the benefit derived by the line of business from that expenditure/investment and the contribution made by the line of business to that expenditure/investment.

For the open sub-accounts, in general, expenses that are exclusively related to participating business are allocated directly to the participating account. Expenses related to both participating and non-participating business are allocated based on business statistics when the expenses vary based on those statistics, based on managers' estimates supported by time studies or other assessments, or in proportion to the total expenses allocated using all of the methods previously mentioned. For unusual items, management will determine and report to the Appointed Actuary the resulting allocation of expenses to each line of business, including the basis and justification for it.

Expenses are charged to the closed block sub-accounts based on pre-determined formulas in accordance with the closed block operating rules.

Taxes are allocated to the participating account using the characteristics of the participating and non-participating accounts that are determinative of the relevant tax costs. In accordance with the closed block operating rules, no taxes on profits are allocated to the closed block sub-accounts since it is expected that closed block earnings will cumulatively be zero over the lifetime of the closed block.

Each year the Appointed Actuary reviews the method used for allocating expenses and taxes to the participating account and reports to the Board of Directors on its fairness and equitableness.

The participating account surplus associated with the open sub-accounts is managed within the Company's capital management framework and with regard to regulatory requirements. Surplus is required for a number of purposes including to help ensure the Company can meet its obligations to participating policyholders, help ensure financial strength and stability of the Company, finance new business growth and acquisitions which may benefit the participating account, provide for transitions during periods of major change, and to avoid undue fluctuations in dividends; subject to items such as practical considerations and limits, legal and regulatory requirements, and industry practices. The surplus position is reviewed annually, having regard for the specific circumstances of the participating account. Based on the review, contributions to surplus may be adjusted by increasing or decreasing the dividend scale.

As permitted by the Insurance Companies Act, the Company may distribute to the shareholders a percentage of the amount distributed to policyholders from the open sub-accounts in respect of a financial year. Prior to any such distribution, the Appointed Actuary will confirm to the Board of Directors that the proposed distribution is permitted under the terms of the Insurance Companies Act. The proportion distributed to the shareholders will not exceed the prescribed amount as determined under section 461 of the Insurance Companies Act. Any distribution made to the shareholders will be published in the Company's annual report.

Under the terms of the closed block operating rules, no distribution to the shareholders may be made from the closed block sub-accounts. In accordance with the demutualization agreement, the amount by which the assets exceed the liabilities in the ancillary sub-accounts is transferred to the shareholders each quarter.

Approved by The Canada Life Assurance Company Board of Directors on Nov. 3, 2016, and effective on that day.

The Canada Life Assurance Company (the Company) Participating Policyholder Dividend Policy

This Policyholder Dividend Policy, in conjunction with the Participating Account Management Policy, has been established by the Board of Directors and applies to all participating insurance policies issued or assumed by the Company. The Board of Directors may amend this policy from time to time at its discretion. The factors most likely to be considered in deciding whether to amend this policy include changes in applicable legal or regulatory requirements, professional guidelines, industry practices or significant business changes. The Appointed Actuary has overall accountability for the administration of this policy.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when pricing the participating insurance policies. The Company may distribute a portion of the earnings at the discretion of the Board of Directors in accordance with this policy.

Participating insurance policies are eligible for periodic policyholder dividends. Policyholder dividends are not guaranteed. The amount to be distributed from the participating account as policyholder dividends is determined at least annually following a review of the experience and trends in experience. Experience in a given year may be amortized into the dividend scale to avoid undue fluctuations in dividends. The amount distributed is also influenced by considerations such as the need to retain earnings as surplus as described in the Participating Account Management Policy.

The amount distributed as policyholder dividends is divided among classes of policies by setting the policyholder dividend scale. These dividend classes are groupings of participating policies with certain product and policy attributes in common.

The Company follows the contribution principle when setting the policyholder dividend scale. This means the amount distributed as policyholder dividends is divided among dividend classes in proportion to the amount that those classes are considered to have contributed to the participating account earnings. A contribution to earnings will be made from a particular dividend class to the extent the experience for that particular class is different from the assumptions used when pricing that class of policies. When applying the contribution principle, attention is paid to achieving reasonable equity between dividend classes and between generations of policies within a dividend class, taking into account practical considerations and limits, legal and regulatory requirements, professional guidelines and industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods designed to approximate the contribution to earnings of those blocks.

The policyholder dividends are credited according to the terms of each policy. A change made by a policyholder to a policy after it is issued may, in some cases, result in a change to the policy's dividend class and thus a change to the amount of policyholder dividends credited thereafter.

In addition to periodic policyholder dividends, dividends may be payable on some policies when terminated through death, surrender or maturity. The amount of any such dividends may take into consideration such factors as the type of policy, the length of time the policy has been in force and when the policy was issued.

The Company maintains separate sub-accounts for certain specific closed blocks of participating life insurance policies in many of the jurisdictions in which it operates. The closed block sub-accounts are within the Company's participating account and managed according to the operating rules established for the closed blocks. Each closed block sub-account is managed separately to distribute over time the full amount of its earnings to the participating policyholders of that closed block through policyholder dividends.

Prior to the declaration of policyholder dividends by the Board, the Appointed Actuary reports to the Board of Directors with his opinion on the fairness to participating policyholders of the proposed policyholder dividends and on their compliance with this policy, applicable legislative and regulatory requirements and applicable professional practice standards. Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

Approved by The Canada Life Assurance Company Board of Directors on Nov. 5, 2014, and effective on that day.

Canada Life™

PERFORMANCE

STRENGTH

ACCOUNTABILITY

The Canada Life Assurance Company, a subsidiary of The Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies, provides insurance and wealth management products and services. Founded in 1847, Canada Life is the country's first domestic life insurance company.

In Quebec, "advisor" refers to a financial security advisor for individual insurance and segregated funds policies and to a group insurance and/or group annuity plans advisor for group products.

Helping people achieve more™

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